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TAX·FEATURES

Bill Archer to Receive Distinguished Public Service Award at TF Annual Conference

"Soak the Rich" by Taxing the Highest Earners 100 Percent . . . And Run the Federal Government for 12 Days!

One of the continuing hopes of income redistributionists is that high income taxes on top earners could generate significant amounts of revenue, enough to close the budget deficit gap without resorting to other politically painful choices. Tax Foundation's ongoing research into tax collections at various income brackets continues to show this is not a viable case.

At the very top—those with a million dollars or more in annual income—there simply are not enough taxpayers in this group to make a significant difference. If the redistributionists are serious about shutting down the deficit, they would have to reach far down the income scale, a move that would undoubtedly raise stiff political opposition. Higher tax rates for just the top five percent of taxpayers, for example, would mean tax increases on returns starting at $67,000 (including joint returns), a level of income which certainly does not qualify as "fat cat" status.

One way to illustrate the point is to take the most extreme example of confiscating all taxable income of top earners. While taxing any category of earners at a 100 percent rate would have a drastic effect on work incentives, and no one of any stature has actually proposed this, it can serve as a relevant object lesson.

Starting with the Most Successful

Starting at the top, examination of 1986 individual income tax data (latest available) shows that those with adjusted gross income (AGI) of $1 million or over numbered 35,875 and represented just 0.03 percent of all taxpayers. Their adjusted gross incomes totaled $82.3 billion, their taxable

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Bill Archer, Republican Congressman of Houston, Texas, will receive the Tax Foundation's 1988 Distinguished Public Service Award at the Foundation's annual conference and dinner on November 30 in New York City.

Hans W. Wanders, Vice Chairman of the Board of The Wachovia Corporation and Chairman of the Board of Trustees of the Tax Foundation, will present the award to Congressman Archer. A major policy addresss by the congressman will follow his acceptance.

Congressman Archer is the ranking Republican on the House Ways and Means Committee and the ranking House Republican on the Joint Committee on Taxation. Elected to the Congress from the seventh district in Texas in 1971, Bill Archer has served consecutive terms since that time, gaining each reelection with a higher winning percentage than any other Republican congressman.

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Mark Your Calendars
To Attend
Tax Foundation's Annual Conference
on November 30, 1988
in New York City

(SOAK THE RICH, *from page 1*)
income $66.3 billion, and they paid $33.7 billion in income tax with an average effective tax rate of 41 percent on AGI. If the Federal government simply confiscated all this group's taxable income, Uncle Sam theoretically would have netted $32.6 billion in additional revenue—enough to run the government for 12 days at 1986 outlay levels. Had that revenue been applied against the deficit that year, it would have made only a small dent.

Reaching Down the Income Scale

Reaching deeper into the top brackets by confiscating 100 percent of taxable income from the $500,000-and-over group of 92,621, the Federal government could theoretically have extracted an additional $53.7 billion, sufficient revenue to pay its bills for 19.8 days or pay off about a quarter of the year's total deficit.

Taking it a step further, commandeering 100 percent of taxable income of the $200,000 and above earners hypothetically could have netted $88.4 billion from almost 400,000 taxpayers, enough to run the government a whole month. While this tactic is now generating some real money, it is also moving down from the rich to those who are merely very well off.

Confiscatory Rates a Daunting Prospect

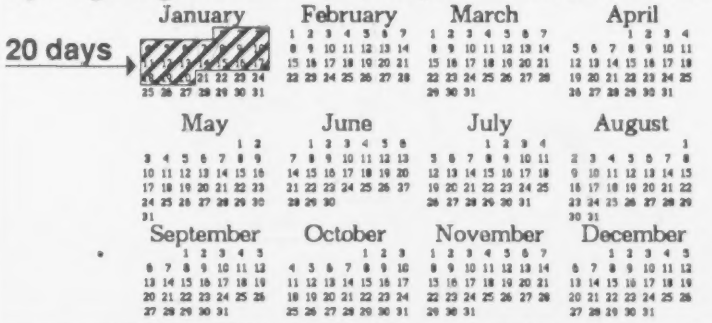
Statistically, it is a long way from $200,000 to the median 1986 family income of $29,458. Emotionally, it's a lot closer. Imagine the impact on middle-income workers who, contemplating a successful career, had to look forward to confiscatory tax rates as the price of success. Realistically, these rates could never approach 100 percent on any block of income (though the marginal rate did reach 94 percent during World War II). But if it were, say, 75 percent on all income above $200,000 with much lower rates applying below that, the impact on incentives of middle- and upper-middle income workers still could be shattering.

The accompanying tables provide further details.

How Many Days Could the Federal Government Pay Its Bills By Simply Confiscating All the Taxable Income of Top Earners?

By 100% taxation of those with $1 million or more:

By targeting those in the $500,000 or more bracket:



By reaching further, down to the $200,000 bracket:

So even with 100% taxation, a "soak the rich" policy will run the Federal government for only a few weeks.

Additional Revenues and Number of Days the Federal Government Could Run By Taxing Top-Income Brackets at 100%

Tax Year 1986

Adjusted Gross Income Class	Number of Returns	Percent of All Returns	Adjusted Gross Income ($ Billions)	Taxable Income ($ Billions)	Income Tax Paid ($ Billions)	Average Tax	Effective Tax Rate (on AGI)	Net If Taxed at 100% ($ Billions)	Number of Days You Could Run Federal Government*
$ 1 Million or more	35,875	0.03%	$ 82.3	$ 66.3	$ 33.7	$ 939,202	41.0%	$ 32.6	12.0 Days
$ 500 Thousand or more	92,621	0.09%	$ 119.4	$ 96.8	$ 43.1	$ 465,588	36.1%	$ 53.7	19.8 Days
$ 200 Thousand or more	398,769	0.39%	$ 206.6	$ 165.2	$ 76.8	$ 192,635	37.2%	$ 88.4	32.6 Days

* 1986 total Federal outlays equaled $ 989.8 billion or $ 2.712 billion per day.

Source: Tax Foundation computations based on Statistics of Income, Internal Revenue Service, U.S. Department of the Treasury.

Budget Watch By Allen Schick

Will There Be a New Boom in Federal Spending?

As the Reagan presidency draws to a close, politicians and interest groups are preparing ambitious spending agendas for the next decade. The "in box" of ideas for new and expanded programs is fuller than at any time since Ronald Reagan took office in 1981. Despite the fact that the current Congress is not likely to act on most of these proposals, legislative activity is high as Members seek to build momentum for their favorite ideas. The first part of this article identifies some of the major items that might find their way into post-Reagan budgets; the second part discusses how the government might respond to emerging demand while it still faces high budget deficits.

The Emerging Budget Agenda

For the first time in many years, the phrase "pent-up demand" has crept into budgetary debate. The phrase tells us something about the waning budgetary influence of a lame duck President, but it also indicates that the country may be on the brink of a new expansion in Federal programs. Public opinion polls show substantial support, higher than at any time in the 1980s, for maintaining or expanding the Federal government's support of education, health care, and other functions. Cutbacks are hardly talked about these days, a far cry from the situation just eight years ago when candidate Reagan was promising to downsize the Federal government.

For the first time in many years, the phrase "pent-up demand" has crept into budgetary debate. The phrase tells us . . . . that the country may be on the brink of a new expansion in Federal programs.

The menu of ideas for new or expanded programs is unusually varied. Estimates of the cost of the various proposals are difficult to obtain, but the total is certain to run into the tens of billions of dollars. The following is a partial list of proposed initiatives.

Cutbacks are hardly talked about these days, a far cry from the situation just eight years ago when candidate Reagan was promising to downsize the Federal government.

■ **The savings and loan and bank crises.** The Federal government insures deposits of savings and loan institutions (S&Ls) and banks. The crisis in the savings and loan industry has received a great deal of attention, but there are growing indications that the banking sector may also be in trouble. The estimated deficit facing the Federal Savings and Loan Insurance Corp. (FSLIC) ranges to $60 billion or higher. The bigger the shortfall turns out to be, the greater the likelihood that FSLIC will have to turn to the Treasury for direct financial aid. Commercial banking insurance is provided through the Federal Deposit Insurance Corporation (FDIC), but though it began this year with about $18 billion in reserves, these may be depleted by a few costly bailouts.

■ **Day care.** Both of the presidential candidates have endorsed major Federal support of day care. Their price tags are similar, about $2.5 billion each, but the approaches differ. The Democratic version would provide direct grants, the Republicans generally favor tax credits. Inasmuch as $2.5 billion would cover only a small portion of the families which might want day care, the final cost might be significantly higher.

■ **National defense.** The amount of new resources provided to the Pentagon has not kept up with inflation in some recent years. Several factors may make it difficult or risky to continue this downtrend. The arms limitation agreement signed by Reagan and Gorbachev, negotiations for a broader strategic arms limitation, and possible curtailment of the strategic defense initiative (SDI) might portend a shift from strategic to conventional forces. But because conventional forces may be even more costly to acquire and maintain, the United States might have to decide between spending more on defense and shrinking its military capabilities.

■ **Drug control.** Congress is convinced that money is the way to uproot this evil and it is moving to spend billions of dollars to eradicate illegal drugs. The issue has become so emotional and politicized, that it is hard to get serious debate as to whether providing vast amounts of money is the best way to deal with this problem.

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■ **Welfare reform.** The House and Senate have passed different versions, and they may not reach a compromise in the last days of the 100th Congress.

(Continued on page 4)

(BUDGET WATCH, *from page 3*)

Depending on the election and other factors, next year's legislation might be even more costly than this year's.

■ **Medical care for the elderly.** Earlier this year, Congress passed and President Reagan signed into law a major expansion of Medicare's protection against catastrophic illness. This could be the forerunner of legislation to subsidize the care of chronically ill in their own homes or in nursing facilities. The cost of changes in Medicare has been underestimated habitually in the past, and it should not be surprising if further expansion turns out to be much more expensive than its advocates concede.

■ **Housing programs.** Because subsidized housing has been sharply cut back in the 1980s, demands to rebuild the housing stock and to assist low-income families are escalating. To make matters worse, a substantial portion of the assisted-housing built in previous decades might be taken out of the low-income market in coming years as the contracts under which they were financed expire. It would cost billions of dollars to keep this housing available for low-income people.

This list of demands on the budget is far from complete. It does not include proposals for new Federal assistance for education and job training, nor does it include any initiatives to protect the environment or to rebuild the nation's physical infrastructure.

. . . it will be exceedingly difficult to meet next year's deficit target under the Gramm-Rudman-Hollings law.

Politicians, however, have ways of spending money without violating the deficit target.

Paying the Bills

Not all of these ideas will make it into law, but some probably will. If some are adopted, they will encounter a tight budget that has no room for program expansions. The latest budget projections indicate that even without new spending, it will be exceedingly difficult to meet next year's deficit target under the Gramm-Rudman-Hollings law.

Politicians, however, have ways of spending money without violating the deficit target. Here are some of the tricks they might pull out of the bag.

■ **Mandates.** They can shift the cost of programs to businesses or other governments by requiring them to provide services which the Federal government is unwilling to pay for. A number of bills have been introduced in Congress to require employers to provide health insurance to all workers. The cost of expanded health coverage would not appear in the Federal budget and it would not, therefore, add to spending or the deficit. The fact that it would add significantly to the cost of doing business would be someone else's problem.

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■ **Tax credits.** The 1986 Tax Reform Act reduced tax rates by terminating or narrowing numerous preferences. But Congress might reverse course and enact new preferences as a means of financing some initiatives. Tax credits have been proposed for child care, education, medical care of the elderly, and other programs. There is a danger that the resurgence of credits might generate pressure to raise tax rates.

■ **Budget tricks.** Just because the Federal government spends money does not mean that the outlay appears in the budget. Spending can be excluded by taking the program or agency off budget, by issuing guarantees in lieu of direct spending, or by establishing special corporations to handle the transactions. All of these devices have been proposed as means of dealing with the crisis in the savings and loan and banking industries. Some have already been applied in the farm credit sector.

Spending can be excluded by taking the program or agency off budget, by issuing guarantees in lieu of direct spending, or by establishing special corporations to handle the transactions.

■ **Change the deficit target.** Because the deficit target might be out of reach next year, there is a high probability that it will be revised by Congress. In the course of postponing the promise of a balanced budget a few years, Congress might be tempted to make room in the target for some additional spending.

■ **Raise taxes or enhance revenues.** If all else doesn't suffice, there is always a tax increase to pay the piper. Because raising taxes is not popular, politicians might throw in some "sweeteners" in the form of additional spending to mobilize public support.

The Reagan years have been exciting times for budget makers and watchers. The budget is likely to be just as exciting in the next decade, but the results might be different.

Tax Features

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FEDERAL TAX POLICY MEMO

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SEPTEMBER 1988

Hidden Taxes and User Fees: The Plague Spreads

By John Hanly Adams
Editorial Consultant

A jingle for the 1990s could be: A rose by any other name would smell as sweet; taxes by any other name can make you weep.

American taxpayers will need a lot of crying towels to get through the next decade. Both political parties are determined not to admit they will raise taxes. But up on Capitol Hill, where the tax-raising decisions are made, platoons of creative staff experts work away to devise new methods of raising revenue under any name except "taxes."

Medicare "Premiums"

Latest example of this growing trend: The financing of expansion in the coverage of Medicare, the medical insurance system for people 65 and over. If you accept Social Security retirement benefits when eligible, as virtually everyone does, you are required to pay the premiums charged for Medicare even if you waive Medicare benefits, The Medicare premiums are deducted automatically from monthly benefit checks.

Starting January 1, 1989, the basic premiums go up about $4 a month per person, and Medicare enrollees will also pay an additional amount called a "supplemental premium." But it will be paid as part of their income tax, at the rate of $22.50 per every $150 of income tax liability in 1989. That used to be called a surtax.

Individuals at the bottom of the income scale escape the new surcharge if their tax liability is less than $1,000 in a given year. Around the taxable income level of $25,000 the surtax begins to be substantial, rising to a limit of $800 (that would be $1,600 for a married couple on Medicare) in 1989, at around $52,000 of taxable income. The "premium" goes up to $1,050 tops ($2,100 per married couple) by 1993. Beginning in 1994 the surtax is to be indexed to the annual rise in the program's costs.

Using the federal income tax to calculate and collect a special levy for a special purpose from a special group of taxpayers (those over 65 in this case) is termed "earmarking." It is a technique that will be increasingly used by Congress, unless there is a voter outcry, because often the tax boost can be hidden behind the name of a program. Thus a tax increase on parents, to finance child care, could be called an "education premium." National health insurance for everyone, seriously discussed lately, could be financed with "premiums" à la the Medicare model. Possibilities seem endless.

Hits on Business

Less obvious than the new Medicare premiums for individuals—but potentially far costlier for taxpayers in general—are complicated changes in laws and regulations that force employers to pay, in one way or another, for various benefits to employees.

Tax laws passed in 1982, '83, '85 and '86 all had provisions that expanded employers' liabilities in connection with Medicare coverage of their retirees, for example. Those costs are not taxes technically, but they have the bite of taxes on a company's payroll costs and profits.

The shift toward "mandated benefits" as a substitute for federally-paid benefits, which would have to be financed by taxes eventually, is just in its infancy. It began with health and retirement benefits for full-time employees and now seems likely to be expanded into more extensive, and expensive, areas including child care and parental leave. One proposal would require employers to provide health insurance for part-time workers and their dependents, and laid-off workers.

Also proliferating are "rifle shot" tax increases aimed at selected businesses and hidden in a sense, within language so obscure only experts can figure it out and they often disagree. Provisions like that in the Revenue Act of 1987 affecting the tax status of insurance company reserves for life insurance liabilities are little noted except by those companies directly involved, but they pass the increases on as an addition to costs which everyone pays. "Rifle shots" are a favorite of Capitol Hill revenue shooters.

User Fees

Another fertile field for "revenue enhancers" (versus plain old tax increases) are the charges levied by federal agencies for services and facilities they once provided as part of their mission.

This has become a favorite revenue lode for the Reagan administration, which "believes that direct beneficiaries should pay for services rather than all the taxpayers" as it was stated in the President's budget message for fiscal year 1989.

That philosophy actually flowered long ago, but it was not until 1952 that Congress got around to enshrining the concept of "user fees" in a statute, the Independent Offices Appropriation Act of 1952, Public Law 82-137. In recent years, as deficits and revenue demands soared, Washington has sharply boosted familiar fees, such as those at national parks, and imposed new charges on travellers, boaters, banks, shippers, importers and others. Only a few turfs with powerful political protectors in both parties—such as western public lands grazing fees and the

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VA loan guaranty fee—have been protected, for the most part, from higher charges.

No one seems to have a complete listing of federal user fees, largely because collecting agencies use differing definitions and report the revenue in different ways. The overall take is assumed to be large and rising, however, estimated at more than $3.3 billion in fiscal year 1987 for direct fees, licenses, tolls and the like.

A much larger amount, estimated at $14 billion in 1987, is collected in prices charged users for products including electric power, rents, facilities and services such as air traffic control. These prices are marked up periodically, with only the users and some congressional committees aware of the increases. Typically there is no other source of supply, or competitor, so customers have no recourse except to scream to Congress.

To insulate itself from that irritation, Congress sometimes pulls out of an activity, turning it over to a semi-private entity with minimal governmental connections. The U.S. Postal Service is the largest example. Postal rate increases, once hotly and loudly debated in Congress as crypto-tax hikes, now go through a rate-making process shielded to a great extent from public attention. Groups with big financial stakes in postal charges—publishers, direct mail advertisers, nonprofit organizations getting subsidized rates, postal workers unions—participate fiercely in rate debates. The general public just pays the bill. The 1988 jump in postal rates, boosting first class mail from 22 cents for the first ounce to 25 cents, will add $3 billion to the present $33 billion annual postal bill, which is double the bill of 10 years ago.

The very latest twist in user fees is to charge the public for advice and forms that must be used in meeting federal rules. Examples: New IRS fees for handling private rulings on tax questions, including computations for individuals' retirement annuities; determinations on tax-exemption requests; and the tax status of employee benefit plans.

Taxing Regulations

The Internal Revenue Service has wide latitude in interpreting the Tax Code. By tightening its procedures, hiring more auditors, carrying more disputes to the courts, the IRS can squeeze more dollars out of taxpayers whether tax rates go up or not. This part of the revenue drive is getting a big assist from the gradual computerization of tax and transaction records, enabling the IRS to ferret out more income and tax it according to its interpretation of the increasingly complex statutes that Congress churns out virtually every year.

This general area is called "improving compliance" and is applauded by many who feel it is only fair that all taxpayers bear the burdens established by laws from Congress. But as those laws burgeon, in number and complexity, the gray areas where reasonable people differ about the laws' terms and the intent of Congress are widening.

The IRS itself cannot keep up with the law and its own regulations. The General Accounting Office, a congressional oversight agency, found IRS phone assistors answering only 61 percent of taxpayer questions accurately in a recent check. The IRS said its survey showed that 75 percent were correct. So 25 to 39 out of every 100 taxpayers asking guidance got bum dope and will pay penalties plus interest on any deficiencies the IRS eventually assesses. Incidentally, the IRS pays nine percent (currently) on any delayed refunds it owes you, but charges you 10 percent on penalties and deficiencies. That feels like a tax increase, to those who get stung.

And Plans for More

On the horizon are many proposals that would have to be financed by taxpayers in some way. Any tax hikes, however, most likely will be slipped through the back door, wearing a mask. The "baseline smoke and mirrors" approach, first applied to the budget process to confuse and deflect the political backlash from deficit spending, now is being transferred as an operations gambit to tax policy—a development dismaying to long-time experts on taxes. Many tax initiatives are conceived in secrecy, drafted into legislation without public hearings, passed with little or no debate, and then buried in lengthy, complex legislation on other topics such as trade rules and massive appropriations bills.

Some nontax-tax ideas now circulating in Washington:

- Senator Edward M. Kennedy and others propose "Lifecare" to provide comprehensive medical care for children, the disabled and the aged, at home or in institutions. The estimated first-year costs: $20.5 billion, to be raised by eliminating the $45,000 cap on income subject to the Medicare payroll tax, plus added premiums for Medicare enrollees. The word "tax" would not have to be mentioned in the enabling legislation.
- Taxing the "imputed value" of various fringe benefits, such as health insurance, has been a Hill target for years and still is.
- Restricting further the issuance of tax-exempt bonds by states and localities, and renewed pressure to narrow or end tax exemption for the income from such bonds, at higher income levels, appeals to revenue hunters.
- Indexing federal excise taxes on gasoline and other products, so they could rise automatically (without much public notice, in typical circumstances) also is being floated.

In short: Get out the crying towels. No help is in sight, as yet.

"Quacks Like a Tax"

A growing argument in Washington: When does a user fee become a tax?

The latest flareup came over proposals to finance a revival of the U.S. uranium industry by buying $750 million worth of uranium for the federal stockpile and cleaning up toxic mine tailings with a trust fund established through fees paid by electric utilities and mining companies.

Treasury spokesmen said the fees more nearly resemble user fees than taxes. That was disputed by Representative Ronnie G. Flippo, Democrat of Alabama and a member of the tax-writing House Ways and Means Committee. At a committee hearing he was quoted by *Tax Notes* as saying "It sure looks like a tax, walks like a tax, quacks like a tax. While user fee is a nice term to look at conceptually, it has the same economic impact as a tax." It's an argument you'll be hearing again and again in the 1990s.

Social Welfare Outlays Dominate Government Expenditures

Governments in the United States paid out $727.9 billion for social welfare programs in fiscal year 1985 (latest officially reported) — showing a hefty $56.9 billion increase over the previous year. Social welfare spending accounted for nearly 52 percent of all Federal, state, and local expenditures climbing 8.5 percent over 1984 and amounting to 20.3 percent of GNP, according to economists at the Tax Foundation.

The $727.9 billion spent would be enough to give every man, woman, and child in the U.S. $3,049. The 8.5 percent increase in social welfare outlays reported for 1985 was modest when compared to spending increases in the recent past. During the 1960s, social welfare spending rose at an annual rate of nearly 11 percent; during the 1970s the rate jumped to almost 13 percent annually. Since 1980, annual growth has averaged just over eight percent.

Public welfare programs as defined by the Social Security Administration (SSA) include social security and public employee retirement, Medicare, Medicaid and cash payments under public assistance, unemployment compensation benefits, health, veterans' services, housing, education, and others.

Emerging Federal Role

The source of social welfare financing has gradually shifted from state and local governments to the Federal government. In 1960, the Federal government's share was 48 percent, less than the state/local contribution; but by 1985, Federal social welfare expenditures of $451.1 billion represented 62 percent of the total.

OASDHI—The Costliest And Still Growing

The largest and most expensive social welfare program, Old Age, Survivors, Disability, and Hospital Insurance (OASDHI), has grown more rapidly than any other. OASDHI payments of $260.5 billion in 1985 were seven times their 1970 size and now claim more than a third (35.8%) of all social welfare outlays, according to Tax Foundation economists. Federal budget figures for 1989 estimate that OASDHI expenditures will reach $317.8 billion — 22 percent higher than in 1985, the latest year covered in the SSA tabulations.

OASDI, the social security portion of OASDHI, has consumed an ever-increasing share of social welfare funds. In 1985 more than 15 percent of the civilian population received monthly social security benefits.

(Continued on page 6)

THE FRONT BURNER

By Robert C. Brown
President, Tax Foundation

"Learning to Ask the Right Questions"

Candidates for public office inevitably try to put the best construction on things. Prophets of doom seldom win elections.

This year's national races are no exception. On the stump, candidates are dodging the tough issues, putting the most favorable interpretation possible on every statistic and achievement that comes within range, and forecasting the best of all outcomes if they are elected.

The Tax Foundation is not in the forecasting business. We are, however, in the business of calling a spade a spade, of keeping the focus on the central issues, and of making sure all players are using the same set of numbers. The following questions suggest themselves for consideration — hopefully before the election, but most assuredly once the smoke has cleared and those who have won the right to govern must actually begin to do so.

• **Where's the fat?** We submit — as we have repeatedly said for years now — that there is still plenty of fat to be cut from virtually every publicly funded program in the Federal budget, and that a number of programs ought to be evaluated for sunsetting or swapping out so that some of the new issues can be addressed with new programs.

• **Do deficits matter?** In the face of a generation of deficit growth, a new breed of economists would answer that question, "Deficits don't matter." They would compute the shortfall as a percentage of gross national product, or find some other formula to justify the continued profligacy of the national government. Statist solutions to societal problems—simply throwing more money at them—have proven they don't work. The man or woman in the street already knows that deficits matter. They learned the answer the old-fashioned way by handling family budgets, managing credit cards, and balancing personal checking accounts. Deficits do matter. It's time we reminded the politicians that they do.

• **What taxes shall we raise?** One senses a tacit agreement in Washington that next year we'll have to raise taxes. We will hear calls for tax hikes disguised as user fees, revenue enhancements, co-insurance payments, mandated benefits or any other sheep's clothing the tax raising wolves can lay their hands on. America has yet to ask the *real* question: What percentage of the wage-earner's paycheck is government going to siphon off? Until we answer that, we cannot address the budget deficit, spending priorities, or revenue sources.

There are other questions. But these are a good start toward a national fiscal agenda from which we might expect some concrete results. I hope somebody remembers to ask them after the November election.

(SOCIAL SPENDING, *from page 5*)

When a program affects such a large proportion of the population, even relatively small programmatic changes have a large fiscal impact. For example, in 1985 the 3.5 percent cost-of-living benefit increase resulted in an $11.4 billion increase in outlays. The cost of care under the similarly large Health Insurance (Medicare) program increased 15.5 percent in 1985. Together, the Social Security and Medicare programs accounted for 37 percent of the total increase in social welfare spending in 1985.

Spending on Education a Distant Second

Until the 1970s the largest category of social welfare programs was public education. In 1976 education spending fell to second place, leaving OASDHI as the dominant social program. The $166.4 billion spent on education in 1985 represented 23 percent of all social welfare costs, down substantially from 35 percent in 1970. Education continues to be largely a state and local responsibility, while social insurance and veterans' benefits remain predominantly federally funded.

Additional details on social welfare spending, broken down by category, are provided in the accompanying table.

Social Welfare Expenditures under Public Programs by Source of Funds and Type

Selected Fiscal Years 1960-1985

Item[a]	1960	1970	1980	1985
		A. Amount ($Millions)		
Total expenditures	$ 52,293	$ 145,856	$ 492,797	$ 727,881
Social insurance	19,307	54,691	229,754	372,583
OASDHI	11,032	36,835	152,110	260,469
Public employee retirement	2,570	8,659	39,490	63,042
Unemployment insurance	2,830	3,820	18,326	13,344
Workmen's compensation	1,308	2,950	13,457	22,263
Public aid	4,101	16,488	71,799	95,965
Public assistance	4,042	14,434	44,888	66,080
Health and medical programs	4,464	9,907	27,919	39,955
Veterans' programs	5,479	9,078	21,466	27,171
Education	17,626	50,846	121,050	166,362
Elementary and secondary	15,109	38,632	87,150	120,742
Higher	2,191	9,907	26,176	35,445
Vocational and adult	298	2,144	7,375	9,891
Housing	177	701	7,210	11,879
Other social welfare[b]	1,139	4,145	13,599	13,947
From Federal funds, total	24,957	77,337	302,616	451,143
Social insurance	14,307	45,246	191,162	313,106
Public aid	2,117	9,649	48,667	61,174
Health and medical programs	1,737	4,775	12,688	18,403
Veterans' programs	5,367	8,952	21,254	26,833
Education	868	5,876	13,452	13,740
Housing	144	582	6,608	10,339
Other social welfare[b]	417	2,259	8,786	7,548
From state and local funds, total[a]	27,337	68,519	190,180	276,718
Social insurance	4,999	9,446	38,592	59,476
Public aid	1,984	6,839	23,133	34,792
Health and medical programs	2,727	5,132	15,231	21,552
Veterans' programs	112	127	212	338
Education	16,758	44,970	107,597	152,622
Housing	33	120	601	1,540
Other social welfare[b]	733	1,886	4,813	6,398
		B. Percentage Distribution		
Total social welfare expenditures	100.0%	100.0%	100.0%	100.0%
Federal	47.7	53.0	61.4	62.0
State-local	52.3	47.0	38.6	38.0
Exhibit: Total as a percent of GNP	10.3	14.7	18.5	20.3

[a] Subtotals include items not shown separately. Total financed from state and local funds includes minor amounts for veterans and housing programs.

[b] Includes institutional care, child nutrition and welfare, vocational rehabilitation, and other social welfare programs not elsewhere classified.

Source: Social Security Administration, Office of Research and Statistics; and Tax Foundation computations.

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